

**REPORT OF THE AUDIT OF THE  
OWSLEY COUNTY  
SHERIFF'S SETTLEMENT - 2005 TAXES**

**May 31, 2006**

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## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT – 2005 TAXES.....	3
NOTES TO FINANCIAL STATEMENTS .....	5
COMMENTS AND RECOMMENDATIONS .....	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	13



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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Cale Turner, Owsley County Judge/Executive  
Honorable Kelly Shouse, Owsley County Sheriff  
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the Owsley County Sheriff's Settlement - 2005 Taxes as of May 31, 2006. This tax settlement is the responsibility of the Owsley County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Owsley County Sheriff's taxes charged, credited, and paid as of May 31, 2006, in conformity with the modified cash basis of accounting.

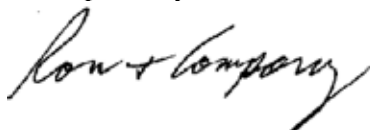
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In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2006, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly
- The County Sheriff's Office Lacks Adequate Segregation of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
August 30, 2006

OWSLEY COUNTY  
KELLY SHOUSE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES

May 31, 2006

<u>Charges</u>	County Taxes	Special Taxing Districts	School Taxes	State Taxes
Real Estate	\$ 101,996	\$ 202,670	\$ 273,297	\$ 85,651
Tangible Personal Property	3,816	6,742	10,586	6,059
Intangible Personal Property		-	-	636
Fire Protection	1,976	-	-	-
Increases Through Exonerations	86	152	229	72
Franchise Corporation	26,134	47,802	72,950	-
Oil and Gas Property Taxes	602	1,066	1,614	506
Penalties	1,285	2,450	3,397	1,065
Adjusted to Sheriff's Receipt	(491)	(732)	(1,105)	458
Gross Chargeable to Sheriff	<u>\$ 135,404</u>	<u>\$ 260,150</u>	<u>\$ 360,968</u>	<u>\$ 94,447</u>
<u>Credits</u>				
Exonerations	\$ 1,851	\$ 3,451	\$ 4,940	\$ 1,854
Discounts	1,247	2,429	3,281	1,082
Delinquents:				
Real Estate	6,683	12,063	17,603	5,517
Tangible Personal Property	250	449	695	1,333
Total Credits	<u>10,031</u>	<u>18,392</u>	<u>26,519</u>	<u>9,786</u>
Taxes Collected	\$ 125,373	\$ 241,758	\$ 334,449	\$ 84,661
Less: Commissions *	<u>5,616</u>	<u>10,275</u>	<u>13,378</u>	<u>3,886</u>
Taxes Due	\$ 119,757	\$ 231,483	\$ 321,071	\$ 80,775
Taxes Paid	119,574	230,988	320,803	80,618
Refunds (Current and Prior Year)	<u>191</u>	<u>337</u>	<u>511</u>	<u>160</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>(8)</u>	<u>\$ 158</u>	<u>\$ (242)</u>	<u>\$ (3)</u>

\* and \*\* See Page 4

The accompanying notes are an integral part of this financial statement.

OWSLEY COUNTY  
KELLY SHOUSE, COUNTY SHERIFF  
SHERIFF'S SETTLEMENT - 2005 TAXES  
May 31, 2006  
(Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	441,792
4% on	\$	334,449

\*\* Special Taxing Districts:

Library District	\$	85
Health District		(1)
Extension District		57
Soil Conservation		17

Due Districts or (Refunds) Due Sheriff)	\$	158
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The accompanying notes are an integral part of this financial statement.



OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENTS

May 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

OWSLEY COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 31, 2006  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of November 2, 2005, \$174,236 of the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Unsecured and uncollateralized - \$174,236 as of 11/2/2005

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was, September 30, 2005 through May 31, 2006.

Note 4. Interest Income

The Owsley County Sheriff earned \$110 as interest income on 2005 taxes. As of August 30, 2006, the Sheriff owes \$45 in interest to the school district and \$65 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Owsley County Sheriff collected \$6,362 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Owsley County Sheriff collected \$710 of advertising costs and \$1,040 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

## COMMENTS AND RECOMMENDATIONS



OWSLEY COUNTY  
KELLY SHOUSE, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

As of May 31, 2006

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

KRS 134.140(3)(b) requires the Sheriff to pay monthly “ that part of his investment earnings for the month which is attributable to the investment of school taxes.” The Sheriff should distribute the investment earnings at the same time as the monthly tax collections. KRS 134.140(3)(d) requires the remaining monthly interest to be transferred to the Sheriff’s fee account. During 2005 tax collections, Sheriff Kelly Shouse earned interest of \$110 on his tax account. However, Sheriff Kelly Shouse did not pay the interest to the Board of Education or the fee account on a monthly basis. As of August 30, 2006, Sheriff Kelly Shouse owes the Owsley County Board of Education \$45 and \$65 in interest to the fee account. We recommend the Sheriff comply with KRS 134.140(3)(b) and (d) by paying the amount of interest due to the school and fee account on a monthly basis.

*Sheriff’s Response: Will correct in the future.*

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The County Sheriff’s Office Lacks Adequate Segregation of Duties

The Sheriff’s office has a lack of segregation of duties. Due to the entity’s diversity of official operations, small size and budget restrictions, the Sheriff has limited options for establishing an adequate segregation of duties. We are recommending that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily deposit, and receipts ledger.
- The Sheriff should compare the monthly tax reports to the receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly tax reports.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

*Sheriff’s Response: None*

PRIOR YEAR:

The Sheriff Lacks Adequate Segregation Of Duties

*This comment is repeated in the current year audit.*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





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Report On Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Owsley County Sheriff's Settlement - 2005 Taxes as of May 31, 2006, and have issued our report thereon dated August 30, 2006. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Owsley County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The County Sheriff's Office Lacks Adequate Segregation of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is also considered to be a material weakness.

Report On Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Owsley County Sheriff's Settlement - 2005 Taxes as of May 31, 2006 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards which is described in the accompanying comments and recommendations.

- The Sheriff Should Distribute Interest Earned On Tax Collections Monthly

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -  
August 30, 2006